

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 AID-20 CEA-02 CIAE-00 COME-00

EA-11 FRB-02 INR-10 IO-14 NEA-14 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 SSO-00 INRE-00 NSCE-00 SS-20 NSC-07 DRC-01 L-03

H-03 FEA-02 /174 W

----- 015451

O R 141743Z MAY 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 9127

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: EFIN, OECD, FR

SUBJECT: DIRECT INVESTMENT ISSUES IN THE OECD

REF: STATE 89852

1. SUMMARY: IN MAY 14 DISCUSSION ON DIRECT INVESTMENT ISSUES IN OECD, FRENCH TREASURY DIRECTOR BROSSOLETTE WAS GENERALLY COOL TOWARDS POSSIBILITY OF BUILDING UP SCOPE OF THESE ACTIVITIES. HE EXPLAINED THAT THIS FRENCH ATTITUDE WAS BASED ON THEIR ASSESSMENT THAT NUMBER OF OTHER OECD MEMBER COUNTRIES WERE NOT READY FOR A FULLY OPEN-DOOR POLICY ON FOREIGN INVESTMENT, AND ON THEIR CONVICTION THAT SURVEILLANCE OVER FOREIGN INVESTMENT ACTIVITIES IN FRANCE WAS NECESSARY TO PROTECT FRENCH NATIONAL INTEREST. FOR THIS LATTER REASON, THEY ARE NOT WILLING TO CONTEMPLATE NATIONAL TREATMENT FOR NEW INVESTORS. THEY ARE ALSO UNENTHUSIASTIC ABOUT CREATING NEW HIGH-LEVEL GROUP IN

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OECD TO DEAL WITH INVESTMENT ISSUES AND FEEL THAT INVESTMENT MATTERS RELATING TO LDC'S WOULD BE BETTER

HANDLED IN IBRDTHAN IN OECD FRAMEWORK. END SUMMARY.

2. ON MAY 14, WE MET WITH PIERRE-BROSSOLETTE, TREASURY DIRECTOR IN FRENCH FINANCE MINISTRY, TO OBTAIN FRENCH VIEWS ON OECD DIRECT INVESTMENT ACTIVITIES, WITH PARTICULAR REFERENCE TO TALKING POINTS AND QUESTIONS CONTAINED PARA 10 REFTEL. (EARLIER MEETING WITH BROSSOLETTE NOT POSSIBLE BECAUSE OF HIS PARTICIPATION DURING MOST OF LAST WEEK IN C-20 DEPUTIES' MEETING HERE IN PARIS.) TO FACILITATE DISCUSSION, WE TRANSMITTED IN ADVANCE TO BROSSOLETTE INFORMAL MEMORANDUM BASED ON PARA 10 REFTEL.

3. SEVERAL TIMES DURING CONVERSATION, BROSSOLETTE EXPRESSED VIEW THAT IN GENERAL, FRENCH GOVT ATTACHED LOWER PRIORITY TO OECD INVESTMENT ACTIVITIES THAN U.S. GOVT APPEARED TO DO IN LIGHT OF REFTEL PRESENTATION. THEY RECOGNIZED THESE MATTERS WERE IMPORTANT. PARTICULARLY AT PRESENT JUNCTURE, HOWEVER, OECD HAD BEFORE IT PROBLEMS OF FAR GREATER IMPORTANCE (PRIMARILY EFFECTS ON WORLD ECONOMY AND MEMBER COUNTRY ECONOMIES OF INTERNATIONAL OIL CRISIS), AND FRENCH BELIEVED THESE WERE THE PROBLEMS TO WHICH OECD SHOULD DEVOTE MOST ATTENTION AND ENERGY. BROSSOLETTE WENT ON TO REMARK THAT LATE 1950'S AND EARLY 1960'S HAD BEEN MOST ACTIVE PERIOD FOR DIRECT INVESTMENT LIBERALIZATION. OEEC, AND THEN OECD, HAD BEEN ABLE TO DO MUCH USEFUL WORK IN CLEARING AWAY UNDERBRUSH OF RESTRICTIONS THAT HAD GROWN UP DURING WAR AND IMMEDIATE POSTWAR PERIOD. WHEN FRENCH LOOKED TODAY AT ATTITUDES OF VARIOUS EUROPEAN GOVTS TOWARDS FOREIGN DIRECT INVESTMENT, THEY WERE SKEPTICAL THAT MAJOR NEW FORWARD THRUST COULD BE GIVEN TO PROCESS OF LIBERALIZATION WITHIN OECD. SPEAKING MORE PARTICULARLY OF FRENCH POSITION, BROSSOLETTE COMMENTED THAT, WHILE DETERMINED TO MAINTAIN SURVEILLANCE OVER FOREIGN INVESTMENT ACTIVITIES IN FRANCE, FRENCH AUTHORITIES WERE, IN PRACTICE, QUITE LIBERAL. HE HAD APPREHENSIONS THAT IF FORCED IN OECD INVESTMENT EXERCISE TO TAKE A STAND AS A MATTER OF PRINCIPLE, FRENCH LIMITED OFFICIAL USE
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AUTHORITIES WOULD FEEL OBLIGED TO PRESERVE THEIR RIGHT TO CONTROL AND MIGHT EVEN BE DRIVEN INTO LESS LIBERAL PRACTICES THAN NOW PREVAIL.

4. TURNING TO OUR SPECIFIC TALKING POINTS AND QUESTIONS (PARA 10 REFTEL), BROSSOLETTE MADE FOLLOWING COMMENTS:

(A) IN LIGHT OF GENERAL FRENCH ATTITUDE TOWARDS OECD INVESTMENT EXERCISE (PARA 3 ABOVE), FRENCH WERE NOT ENTHUSIASTIC ABOUT MAKING THIS TOPIC AN IMPORTANT

ITEM ON OECD MINISTERIAL AGENDA. CONSEQUENTLY, IT WAS UNLIKELY THAT FRENCH REPRESENTATIVES WOULD GIVE SUPPORT TO INITIATIVE IN THIS SENSE.

(B) FRENCH GOVT FIRMLY BELIEVED THAT AD HOC EXPERTS SHOULD CONFINE THEIR DISCUSSION OF APPLICATION OF NATIONAL TREATMENT PRINCIPLE TO ESTABLISHED

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INVESTORS. INDEED, FRENCH THOUGHT OF NATIONAL TREATMENT PRINCIPLE ONLY IN RELATION TO ESTABLISHED INVESTORS AND NOT AS BEING GERMANE TO CONDITIONS PREVAILING FOR NEW APPLICANTS. BROSSOLETTE SAID FRENCH FELT THEY DID ACCORD NATIONAL TREATMENT (RE ACCESS TO CREDIT, TAXATION, EXCHANGE CONTROLS, ETC.) TO ESTABLISHED FOREIGN INVESTORS, AND THEY WOULD BE PREPARED, THEREFORE, TO ENTER INTO A MULTILATERAL UNDERTAKING ON THIS SCORE.

HE RECOGNIZED THAT FRENCH INVESTMENT REGULATIONS IMPOSED SCREENING REQUIREMENT FOR ESTABLISHED FOREIGN INVESTORS PROPOSING TO UNDERTAKE SIGNIFICANT EXPANSION OF THEIR OPERATIONS IN FRANCE, BUT FELT THIS DID NOT CONTRAVENE NATIONAL TREATMENT PRINCIPLE, SINCE IT WAS SAFEGUARD DESIGNED MAINLY TO PREVENT CIRCUMVENTION OF REQUIREMENT THAT ALL NEW INVESTMENTS HAVE PRIOR APPROVAL OF FRENCH AUTHORITIES.

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AS FOR SCREENING REQUIREMENTS OF NEW INVESTORS, IT WAS FUNDAMENTAL FRENCH POSITION THAT FRENCH GOVT HAD TO HAVE MEANS OF KNOWING ABOUT THESE PROPOSALS AND OF REJECTING THOSE JUDGED NOT TO BE IN FRENCH NATIONAL INTEREST. BROSSOLETTE REITERATED THAT IN POINT OF FACT, MOST PROPOSALS WERE APPROVED WITHOUT DIFFICULTY. ALL THE SAME, BECAUSE OF PRINCIPLE INVOLVED AND NEED IN EXCEPTIONAL CASES TO DENY INVESTMENT APPLICATIONS, FRENCH COULD NOT ASSOCIATE THEMSELVES WITH ANY MULTILATERAL UNDERTAKING AS REGARDS NATIONAL TREATMENT FOR NEW INVESTORS.

(C) BROSSOLETTE WAS COOL TOWARDS IDEA OF CREATING NEW HIGH-LEVEL GROUP IN OECD TO DEAL WITH INVESTMENT ISSUES. HE SAID HIS ATTITUDE STEMMED PARTLY FROM PRIORITY THAT FRENCH ATTACHED TO THESE ACTIONS (PARA 3 ABOVE) AND PARTLY FROM FACT THAT FRENCH BUREAUCRACY WAS ALREADY OVERLOADED WITH DEMANDS FOR REPRESENTATION AT VARIOUS INTERNATIONAL MEETINGS. HE REPEATED HIS VIEW THAT OECD INVESTMENT ACTIVITIES WERE USEFUL AND SHOULD GO FORWARD, BUT FELT THAT EXISTING OECD BODIES COULD VERY APPROPRIATELY PROVIDE NECESSARY GUIDANCE FOR THIS WORK.

(E) BROSSOLETTE HAD LITTLE TO SAY ABOUT OECD WORK PROGRAM ON MNC'S, WITH WHICH HE DID NOT SEEM VERY WELL ACQUAINTED.

(F) BROSSOLETTE WAS SKEPTICAL ABOUT IDEA OF GETTING OECD INVOLVED IN WORKING OUT SET OF PRINCIPLES REGARDING FOREIGN INVESTMENT IN DEVELOPING COUNTRIES. DEVELOPING COUNTRIES WOULD ALWAYS TEND TO LOOK UPON OECD PROPOSALS AS SOMETHING COMING FROM "RICH MAN'S CLUB," NO MATTER HOW WELL FOUNDED THOSE PROPOSALS MIGHT BE. INVESTMENT MATTERS RELATING TO LDC'S MIGHT BETTER BE HANDLED IN IBRD FRAMEWORK, WHERE LDC'S SIT AT THE TABLE AND ALSO ARE BENEFICIARIES OF IBRD FINANCIAL FACILITIES.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INVESTMENT LAW, INVESTMENTS, CAPITAL FLOWS, MINISTERIAL MEETINGS, COMMITTEE MEETINGS, FOREIGN POLICY POSITION
Control Number: n/a
Copy: SINGLE
Draft Date: 14 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974PARIS11699
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740118-0672
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740549/aaaabrpl.tel
Line Count: 221
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: STATE 89852
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 03 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 APR 2002 by cunninfx>; APPROVED <12 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: DIRECT INVESTMENT ISSUES IN THE OECD
TAGS: EFIN, FR, OECD
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005